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Comparison of Tax System between the Czech Republic and Taiwan

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4. Main Differences between Tax System in the Czech Republic and in Taiwan
5. Conclusion

Bibliography
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„I declare that I have written the diploma thesis independently. The annexes no. 1 and no. 2 given to me I completed by myself."

In Ostrava 25. 4. 2014

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CONTENT

1 INTRODUCTION

The Taiwan Miracle refers to the rapid economic growth of Taiwan during the latter half of the twentieth century. As it has developed alongside South Korea, Hong Kong and Singapore, Taiwan has become known as one of the "Four Asian Tigers".

The island of Taiwan, officially the Republic of China, is a state in East Asia. The author studied six months at the National Taiwan University of Science and Technology and for this reason, the thesis is focused on Taiwan.

As it is known, taxes are an everyday financial fact of life. The tax systems of modern economies are highly complicated. They reflex the complex pattern of economic activities, the numerous different forms in which incomes accrue, and the many political compromises underlying the tax laws.

Entrepreneurs and businesses are facing revolutionary changes in the Czech Republic. The New Civil Code, Act on Corporations and other legislation came into force in January 2014. For corporations, the changes will affect all areas, both inside and outside the organisation.

The main objective of the thesis is to compare the tax systems and to find the most important differences in the taxation of the Czech Republic and Taiwan, taking into account the New Civil Czech Code. The thesis is divided into five chapters. Apart from the introduction and the conclusion there are three main chapters.

The second chapter focuses on the basic principles and the structure of taxes in the Czech Republic. This chapter further mentions the adoptions of the New Civil Code and contains the most important changes in the Czech tax regulation.

The aim of the third chapter is to introduce the island of Taiwan and to outline the fundamental concepts of Taiwan's tax system. The chapter focuses on the current taxation structure and the basic division of the direct and indirect taxes. In addition, this chapter deals with the tax reform in Taiwan.

The key chapter of the presented thesis is the fourth chapter comparing the two tax systems and providing background for more in-depth discussion on differences between the tax system in the Czech Republic and Taiwan. This chapter also mentions the problem of the uniform invoice lottery, better known as the Taiwan receipt lottery, as one of the factors influencing the tax policy. The last sub-chapter is focused on the comparison of selected tax revenues.

All parts of the thesis are summarized in the concluding chapter. The thesis used the methods of desription, analysis, comparison and evaluation.

2 BASIC PRINCIPLES AND STRUCTURE OF TAX SYSTEM IN THE CZECH REPUBLIC

The second chapter of the thesis contains several sub-chapters. First sub-chapter deals with the New Civil Czech Code and with the most essential changes in the tax legislation. Further, it provides the structure and basic division of taxes in the Czech Republic.

2.1 The New Civil Code

The new legislation was being prepared for about ten years. The previous discussions about the need to replace the existing code, which dates back to 1964, had been going on for at least that long.

As of January 1, 2014, a substantial and complex recodification of Czech private law became effective. This recodification is the largest change in Czech legislation in over two decades and presents a huge challenge to the Czech legal community and the Czech population at large. It is based on the adoption of three new fundamental laws - the new Czech Civil Code, Act No. 89/2012 Coll. (the "New Czech Civil Code"), the Czech Business Corporations Act, Act No. 90/2012 Coll. and the Act on Private International Law, Act No. 91/2012 Coll.

2.1.1 Important Changes in the Czech Tax Regulation

The adoption of the New Civil and Corporation Law required some amendments to the tax law. The New Civil Code is full of new terms that are reflected in the tax laws. The amendment responds to the archaic terminology of the Civil Code. Here we can see some of the most essential changes[1]:

a) The gift and inheritance tax

The inheritance and gifts are subject to the income tax, Act No. 586/1992 Coll., on Income Taxes, as amended. It basically means that inheritance and gift tax are not regulated in separate acts. However, the inheritance is generally tax exempt for both legal and private persons. Gifts are taxable. Only few exemptions were adopted.

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[1] Not all of the following changes are related to the New Civil Code.

b) Tax on immovable assets

The tax is regulated by Act No. 338/1992 Coll., Tax Immovable, as amended. In addition to the change of the name, the real estate tax has been subject to several other changes intended to simplify the return and administration of the tax, for example:

- various components of houses which are structures but not buildings (such as fencing, wells, sidings etc.) need not be declared separately,
- for units to which land belongs outside the actual built-up area of the house itself, the land no longer needs to be declared separately; it is enough to increase the floor area using a higher coefficient,
- the tax on multi-floor buildings which are not divided into units will be paid only for floors which excess one third of the built-up area of the building.

c) Trust taxation

The New Civil Code, Act No. 89/2012 Coll., is introducing into the Czech environment the concept of a trust fund, which is similar to a foreign trust or a trust management agreement. The allocation of assets to the fund or the income from the trust fund should be exempt from tax. The fund is taxed as a company.

d) Real estate transfer tax

According to Act No. 340/2013 Coll., the contemporary real estate transfer tax is replaced with the new tax on acquisition of immovable assets. The new tax shall have similar parameters as the previous one (e.g. the tax rate, concept of exemptions). However, some changes have been made e.g. contributions in kind into the registered capital of business corporations in the form of a real estate are no longer tax exempt.

e) Personal income tax

The personal income tax has been subject to several significant changes such as:

- The exemption of income from the sale of securities is from six months to three year. There is also the introduction of an annual CZK 100,000 limit for the exemption of income from the sale of securities that are not included in business assets.

- The limit for the exemption of income from occassional activities was increased from CZK 20,000 to CZK 30,000 in one year.

- Deductible items can be claimed from the tax base for non-residents only if the sum of income from sources in the Czech Republic is at least 90 % of worldwide income and the non-resident is a resident of the EU, Norway or Iceland. The amount of income from abroad will be demonstrated by a confirmation from the foreign tax administrator on a form issued by the Ministry of Finance (MF).

f) Research and Development

Among other, the government decided to further increase support for research and development by extending the deduction even for the acquisition of research and development results from research organisations, with the posibility to increase the deduction in annual increments.

Pic. 2.1 Tax System before adopting the New Civil Code

Source: Ministry of Finance (2013), own elaboration

2.2 Current Tax System

The system of taxation of the Czech Republic resembles the systems of taxation of other European countries. The picture 2.1 shows the tax system before adopting the New Civil Code. Instead, the picture 2.2 indicates the current tax system. Generally, taxes can be divided into **direct taxes**, related to the level of income of the subject, and **indirect taxes,** related to consumption, or the purchase of goods and services. The direct taxes consists income tax, tax on immovable assets, road tax and tax on acquisition of immovable assets. The indirect taxes are value-added tax (VAT), excise duty and energy taxes.

Each type of tax is defined in a specific piece of legislation. The administration and collection of the individual taxes falls under the Ministry of Finance of the Czech Republic and its subordinated administrative bodies, above all the local tax authorities.

Pic. 2.2 Tax system after adopting the New Civil Code

Source: Ministry of Finance (2014), own elaboration

2.3 Direct Taxes

Direct taxes include income tax, which represents the main tax duty. It is divided into the income tax of natural persons and the income tax of legal entities, with different tax rates. Direct taxes also contain tax on immovable assets, tax on acquisition of immovable assets and road tax.

2.3.1 Personal Income Tax

According to Act No. 586/1992 Coll., on income tax, as amended, personal income tax is payable by Czech resident individuals on income derived from worldwide sources. The term **resident** includes any person residing in the Czech Republic for at least 183 days within a calendar year or having residence[2] in the Czech Republic. Individuals who are Czech **non-resident** for tax purposes are subject to tax only on income from Czech sources.

Personal income tax is paid by employees and small businesses or so called self-employers. Employers are obliged to deduct tax advances under a payroll deduction scheme. Self-employers pay tax advances by themselves and file an income tax return every year to settle any differences between the amount due and amount advanced.

Income tax is payable on assessable income less expenses and allowable deductions. Assessable income includes business income, employment income, other capital gains, dividends, rental, interest income, annuities and other income. Expenses cannot be claimed for employment income or capital gains (most of which are subject to withholding tax). Employment income cannot be reduced by losses of any other categories of income. Income from business or rental operations can be reduced by losses deriving from other categories. Income from employment is taxable individually and is reduced by certain deductible items and personal allowances.

Tax Base

The tax base for employees is calculated as the gross salary increased by the employer’s health insurance and social security contributions. Employees hired under an employment contract under Czech law pay social security and medical insurance contributions at the rate of 11% withheld by their employers from their gross wages. Social security contributions are

[2] Permanent home.

also paid by the self-employed. From 2008, the flat rate of 15 % is applied to super gross salary.[3]

Self-employed persons cannot deduct social security and health insurance contributions from their tax base. They can apply lump sum deductions instead of claiming actual expenses. However, in certain cases the amount of the deduction is limited.

Business deductions

In general, expenses and costs are considered to be deductible for tax purposes if they are incurred to generate, assure and maintain taxable income. In addition, the law explicitly provides that certain expenses are deductible (for example, depreciation) and that certain expenses are not deductible (for example, representation expenses).

Instead of deducting actual expenses, taxpayers engaged in certain business activities may choose to deduct a percentage of gross revenues as lump-sum costs. The percentage of lump-sum costs varies depending on the individual's business activity, as indicated in the following table.

Tab. 2.3 Lump sum deductions

Activity	Deductible rate (%)
Agriculture, forestry, fishing, farming and craft	80
Trade license income	60
Licensing intellectual property rights (inventions and copyrights),sole proprietorships and other business income	40
Rental	30

Source: Ministry of Finance, own elaboration

[3] A gross wage plus social security and medical insuarence contributions paid by employer in the amount of 34 % of gross wage.

Tax Rate and Tax Year

Taxable income of residents and nonresidents, other than income subject to withholding tax, is taxed at a flat rate of 15 %. The tax year for individuals is the calendar year.

Tax Returns and Compliance

The tax return has to be submitted by 1 April of the following year, or 1 July if the return is prepared and submitted by a certified tax adviser or by a solicitor. In the latter case, a power of attorney in respect of the tax adviser must be submitted to the tax authority by 1 April upon which the deadline for submission of the tax return is automatically prolonged by three months (to 1 July).

In special cases the tax authority can postpone the date for submission of the tax return by up to three months at a written request of the taxpayer or his/her tax adviser (even if the deadline was already once prolonged due to filed power of attorney). The request needs to be filed before the respective deadline.

Solidarity Tax

From 1 January 2013, in addition to standard 15% flat rate, a 7% solidarity tax increase is imposed on annual gross income (sum of gross employment income and taxable self-employment income) exceeding CZK 1,245,216. In the case of employees on Czech payroll, the solidarity tax increase is applied monthly on income exceeding 1/12 of the above annual threshold as an advance payment.

2.3.2 Corporate Income Tax

Corporate tax is levied on income from the worldwide operations of Czech tax residents and on Czech-source income of Czech tax non-residents. A company is resident if it is incorporated in the Czech Republic or if its management and control is exercised in the Czech Republic.

Tax Base

Tax base is calculated from the accounting profit/loss shown on the relevant financial statements prepared according to the Czech accounting act and standards. Tax base is further adjusted by non-deductible costs and nontaxable revenues and other non-accounting adjustments.

Tax Year

The taxable period for corporate income tax is generally a calendar year or an economic year.

Tax Rate

The standard corporate tax rate is 19 %. A 5% tax rate applies for investment funds, pension and share funds.

Tax Administration

Generally, the tax return must be filed within 3 months after the end of taxable period. Czech legal entities that are required to prepare audited financial statements or whose tax return is signed by a registered tax advisor must file their tax returns within six months following the end of the tax period. In certain cases (e.g. a merger), the period for submission of the tax return is reduced.

Corporate income tax liability is payable by the deadline for submission of the tax return. If the reported tax liability exceeds the statutory treshold, the taxpayer is obliged to pay advance tax payments on a quarterly (if the last known corporate income tax liability exceeded CZK 150,000) or semiannual basis (if the last known tax liability was between CZK 30,000 and CZK 150,000). If the last known corporate income tax liability is less than CZK 30,000, no advance payments are required.

If the tax return is not filed or not filed in time, the tax authorities assess a late-filing penalty of 0.05 % of due ta per each day of such delay, up to 5 % of the tax liability. In case of tax loss, the tax authorities levy a penalty of 0.01 % per each day of such delay, up to 5 % of the tax loss. The penalty cannot exceed CZK 300,000 and does not apply in the first 5 days following the deadline. From January 2014 the penalty may be reduced by 50 % if certain requirements are met.

Tax-Deductible Costs

The list of tax-deductible costs is similar to those common in other countries. Generally, costs are tax-deductible if incurred in order to generate, assure and maintain taxable income. For instance tax depreciation of assets, purchased materials and services, wages and salaries including social security and health insurance contributions paid by the employer.

All costs claimed in the relevant tax period as tax-deductible should be supported by documentation providing their relation to the relevant tax period.

Withholding Tax

Certain types of payments such as dividends, interest or royalties are subject to witholding tax. Withholding tax rate ranges from 5 % to 35 % depending on the type of income and residency of the recipient. The payer of withholding tax is payer of the income which is subject to the withholding tax.

Tax-Deductible Allowance

From 1 January 2014 the allowance up to 50/110 % of acquisition price of long term assets in connection with the support for technical training can be used. The deduction is available for asset acquisition included in depreciation groups 1, 2, or 3 and also for software if the acquisition price is higher than CZK 60,000. In case of expenditures incurred on students there is a possibility to apply the tax allowance in the amount of CZK 200 per training hour for each student.

Up to 100/110 % of the costs associated with the projects of research and development and incurred in a given tax year or period for which a tax return is filed can be deducted from the tax base as a special tax allowance. This 10% extra deduction is applicable for year-to-year increment in eligible R&D costs.

2.3.3 Tax on Immovable Assets

Formally, the tax on immovable assets is divided into two kinds of taxes – land tax and buildings tax.

The plots of land registered in the real estate cadastre and located in the Czech Republic are subject to the land tax. The buildings and structures built up in compliance with the construction (building) law and located in the Czech Republic are subject to the buildings tax.

Tax Base and Tax Rate

The tax on buildings is based on the area of land occupied. The rates range from CZK 2 to CZK 10 for buildings. Increased rates apply in certain circumstances. The tax on land is 0.75 percent of the deemed value. Special rates apply for forests, lakes and ponds. For other types of land, the tax is based on the area. The rate is CZK 2 per square metre for building land, CZK 5 per square metre for improved land surface used for business and CZK 0.20 per square metre in other case.

2.3.4 Tax on Acquisition of Immovable Assets

The rules for the new tax on the acquisition of immovable assest are contained in an entirely new law which replaces the original regulation of the real estate transfer tax.

Taxpayer

In most cases the tax is paid by the acquiror. However, in the most usual transfer through a puchase agreement, the tax continues to be paid by the seller while the buyer is the guarantor. The parties may contractually transfer the tax obligation to the buyer.

Here we can see other the most substantial changes:

- In many cases it will not be necessary to draw up an expert evaluation in the transfer, instead, it is possible to use an indicative value from a database which will be created by the Ministry of Finance.
- The exemption of the contribution of real estate to the registered capital of a subsidiary has been abolished. An acquisition tax of 4 % of the expert valuation will therefore be paid on non-monetary contributions.
- Another negative impact consists of taxation of each of the two transfers in the case of exchange of real estate (up to now, tax was only collected on the more expensive real estate).

Tax Rate

A flat rate of 4 % is calculated from the tax base.

2.3.5 Road Tax

Road tax is payable on road vehicles and their trailers, registered and operated for business purposes in the Czech Republic.

Tax Base and Tax Rates

The tax is calculated according to the engine size for passenger cars or weight and number of axles for other commercial vehicles. The rates range from CZK 1,200[4] up to CZK 4,200[5] and from CZK 1,800 up to CZK 50,400.[6]

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[4] Cars with engines up to 800 cm^3.

[5] Cars with engines over 3000 cm^3.

[6] Trucks over 36 tonnes.

Tax Administration

The tax period is a calendar year and taxpayers are required to submit their tax return for the tax period by 31 January of the following year.

Freight vehicles weighing up to 12 tonnes with an electric or hybrid engine, or running on liquefied petroleum gas (LPG) or compressed natural gas (CNG) are exempt from the road tax.

2.4 Indirect Taxes

In contrast to direct taxes, indirect taxes are levied on production and consumption and are not borne by the taxable persons (traders or industry) who pay them (J. Knodel, 2008). Indirect taxes include VAT, excise duty and energy taxes.

2.4.1 Value-added Tax

The value added type of tax is a tax on goods or services collected by companies in parts but paids together after a fiscal year calculation (Kotlán, 2010).

According to Sullivan (1965), the concept of value added tax is based on two different approaches. The one suggests that the tax was introduces only as a sales tax. The second approach says that the tax is expressly related to some version of a benefit principle of taxation.

Scope of Tax

According to Act No. 235/2004 Coll., the Value Added Tax, the VAT applies to the following transactions:

- the supply of goods or services made for consideration in the Czech Republic by a taxable person, including the transfer of real estate,
- the intra-Community acquisition of goods for consideration made in the Czech Republic by a taxable person,
- the intra-Community acquisition of goods by a legal entity that has not been founded or established for the purpose of carrying on business activity,
- the acquisition of a new means of transport from another member state of the EU for consideration by a person who is not a taxable person,
- the importat of goods into the Czech Republic.

Taxable Person

A taxable person is an individual or business that independently carries out economic activities. In addition, a taxable person is a legal entity that was not established for the purpose of doing business if it undertakes economic activities.

Registration

A Czech company must register for VAT, if its supplies in the Czech Republic exceed CZK 1 million for a period of 12 consecutive months. A foreign company must register once a first supply in the Czech Republic is made. Voluntary registration is possible if a company have tendered or renders taxable supplies in the Czech Republic.

A company must register in a simplified form, mainly if it purchases (receives) business to business services or if purchases of goods from other EU member states exceed CZK 326,000 in a calendar year.[7]

Tax Rates

There are two rates of VAT. The standard rate is 21 % and it applies generally to supplies of goods and most services. The reduced 15% rate applies to selected services and some goods such as foodstuff or pharmaceutical products.

Filling and Payment

The return must be filed and the tax paid within 25 days after the end of taxable period. The taxable period is a calendar month or calendar quarter, depending on taxpayer's turnover.

2.4.2 Excise Duty

The consumption tax unlike VAT is imposed only on specifically defined goods. The subject of tax may be number of products. Here we can see three basic groups:

- Consumption tax on alcoholic beverages,
- Mineral oil,
- Tobacco products.

Tax Base and Tax Rates

Excise duty is fixed at a set amount per unit for each group of products.

[7] Identified person.

The category of alcoholic beverages includes beer, wine, sparkling wine, and other alcoholic beverages. These consumption taxes are applied in two different ways. The tax can be specific in relation to the amount of alcohol in a product or calculated based on the product price.

Taxes on mineral fuels are further divided into categories reffering to technical specification. Also taxation of tobacco products is divided into number of categories (cigarettes, cigars or cigarette rolling tobacco). Taxation is based on specific rate and price rate combination.

Excise products can be produced, transported or stored under duty suspension arrangement, i.e. tax liability is deferred until these products are released for free tax circulation.

2.4.3 Environmental Taxes

On 27 October 2003, the European Union's Council of Ministers adopted Directive 2003/96/EC restructuring the Community framework for the taxation of energy products and electricity. The Directive widens the scope of the EU´s minimum rate system for energy products, previously limited to mineral oils, to all energy products including coal, natural gas and electricity.

The primary objective of the environmental tax reform is to stimulate economic subjects to such behaviour that leads to a reduction in environmental damage and its impacts on the public health.

Three new taxes were introduced in 2007 in the Czech Republic; taxes on natural gas, solid fuels and electricity, supplementing the existing excise duty on mineral oils. The taxes became part of Act no. 261/2007 Coll., on stabilisation of public budgets, and became effective on 1 January 2008.

Taxpayers

The payers of energy tax are either suppliers of energy selling energy in the Czech Republic to end-users, or operators of distribution or transmission systems. Subject to energy tax are also entities that use tax-exempt energy for purposes other than those that are exempt or that use untaxed energy.

Tax Rates

The tax on electricity is levied at the rate of CZK 28.30 per MWh. The tax on natural gas is levied at rates varying from CZK 30.60 per MWh to CZK 264.80 per MWh, depending on the type of gas, the purpose of its use and the date when the tax liability arises. The tax on solid fuels is levied at the rate of CZK 8.50 per GJ of caloric value. End-users can utilise tax exemptions when the energy products are used for specific purposes.

3 FUNDAMENTAL CONCEPTS OF TAIWAN’S TAX SYSTEM

The purpose of this chapter is to provide an overall, concise yet comprehensive introduction to the tax system in Taiwan. In addition to introduction focusing on the tax system, basic information about Taiwan and problems before the tax reform will also be provided in this chapter.

3.1 About Taiwan

Taiwan, officially the Republic of China (hereinafter referred to as “ROC”), was founded as Asia's first constitutional republic in 1912 by Dr. Sun Yat-sen. Since the ROC government moved to Taiwan after the Chinese mainland fell to communist Chinese forces in 1949, the area over which the ROC government exercises administrative control is called the Taiwan area. This area encompasses Taiwan, Penghu, Kinmen, Matsu and a number of smaller islands.

The island of Taiwan, situated off the southeast coast of China and separated from the Chinese mainland by the Taiwan Strait, is located in the Western Pacific between Japan and the Philippines. With a total area of about 36,000 square kilometres, the island is 394 kilometres long and 144 kilometres at its widest point.

Population

Taiwan’s population surpassed 23 million by the end of 2013. More than 18 million are the ‘native’ Taiwanese, the descendants of Chinese who migrated from Fujian and Guangdong Provinces on the mainland, primarily in the 18th and 19th century. The ‘mainlanders,’ who arrived on Taiwan after 1945, came from all parts of mainland China. About 370,000 aborigines inhabit the mountainous central and eastern parts of the island and are believed to be of Malayo-Polynesian origin.

Taipei City is the island’s largest and most densely populated metropolitan area, followed by Kaohsiung City in the south. About 60 % of Taiwan’s population is concentrated in four metropolitan areas – Taipei, Kaohsiung, Taichung and Tainan.

Languages

A large majority of people on Taiwan speak Mandarin Chinese, which has been the medium of instruction in the schools for more than four decades. Native Taiwanese and many others also speak one of the Southern Fujianese dialects, Min-nan, also known as Taiwanese. Recently there has been a growing use of Taiwanese in the broadcast media. The Hakka, who are concentrated in several counties throughout Taiwan, have their own distinct dialect. As a result of the half-century of Japanese rule, many people over age 60 also can speak Japanese. The method of Chinese romanization most commonly used in Taiwan is the Wade-Giles system. In 2002, Taiwan authorities announced adoption of the pinyin system also used on the Mainland to replace the Wade-Giles system but its use is not consistent throughout the society, resulting in many place names having two or more romanizations for the same place or person.

The number of native speakers of Chinese greatly exceeds that of any other language in the world. Although many Chinese dialects are mutually unintelligible, all tend to be grouped together under the classification of Chinese. Nevertheless, the Chinese people shared what is known as the National Language in Taiwan, Common Language on the Chinese mainland, and Mandarin in the English language. Mandarin is based on the Beijing dialect.

Education

A 9-year public educational system has been in effect since 1979. Six years of elementary school and 3 years of junior high are compulsory for all children. About 93.5 % of junior high graduates continue their studies in either a senior high or vocational school. Taiwan has an extensive higher education system with more than 150 institutions of higher learning. Each year over 100,000 students attempt to enter higher education institutes; about 75 % of the candidates are admitted to a college or university. Opportunities for graduate education are expanding in Taiwan, but many students travel abroad for advanced education, including 13,000 who study in the United States annually.

Economy

Through nearly five decades of hard work and sound economic management, Taiwan has transformed itself from an underdeveloped, agricultural island to an economic powerstate that is a leading producer of high-technology goods. In the 1960s, foreign investment in Taiwan helped introduce modern, labor-intensive technology to the island, and Taiwan became a major exporter of labor-intensive products. In the 1980s, focus shifted toward increasingly sophisticated, capital-intensive and technology-intensive products for export and toward developing the service sector. At the same time, the appreciation of the New Taiwan dollar, rising labor costs, and increasing environmental consciousness in Taiwan caused many labor-intensive industries, such as shoe manufacturing, to move to the Chinese mainland and Southeast Asia. Taiwan has transformed itself from a recipient of U.S. aid in the 1950s and early 1960s to an aid donor and major foreign investor, especially in Asia. Taiwan is now a creditor economy, holding the world's third largest stock of foreign exchange reserves.

3.2 Tax Reform

As Gruber (2011) describes, there are three major arguments for fundamental tax reform. First of all there is a need to increase tax compliance, to make the tax code simpler and to improve tax efficiency.

3.2.1 History of Tax Reform

The adoption of the integrated system in Taiwan was first proposed by an ad hoc Tax Reform Commission under the Executive Yuan in March 1968. Under this proposal, based on the British tax system before 1966, corporate income tax was only to be imposed on corporations, and not proprietorships and partnerships. Furthermore, shareholders were to be allowed an individual income tax credit for the corporate income taxes already paid on dividends they received. However, because the integrated system was not prevalent internationally, the proposal was not actively pursued.

In May 1985, the proposal for implementing the full imputation system was again brought up by an ad hoc Economic Reform Commission under the Executive Yuan. However, the real tax burden on businesses was not heavy at that time due to preferential tax treatments. More importantly, enforcement of a full imputation system would have led to a huge loss of tax revenue, which might have damaged the soundness of government finances. Thus, implementation of the integrated system was again postponed.

A separate Tax Reform Commission was set up by the Ministry of Finance in July 1987 to promote a second round of tax reform. In a study on the integrated system, the commission presented four options – a dividend deduction system, a partial imputation system, a full imputation system, and a retained earnings surtax system to be considered as methods of eliminating or easing the double taxation of dividend income. This proposal was also postponed due to concerns over a likely massive decline in tax revenue.

Over the past twenty years, the roots of the integrated system have become firmly established in the public consciousness, and the number of countries that have adopted integrated systems has increased. Following the ROC presidential election in 1996, President Lee Teng-hui pushed for the implementation of an integrated system. Subsequently, the ROC Ministry of Finance evaluated the pros and cons of various integrated methods and then decided on a full imputation system. After the revised income tax law received the approval of the Legislative Yuan at the end of 1997, an integrated system was finally established in Taiwan.

3.2.2 Previous Income Tax System

Before the 1997 tax reform, Taiwan's income tax system consisted of a corporate income tax and an individual income tax. The corporate income tax was imposed on the profits of profit-seeking enterprises, including corporations, partnerships, and proprietorships. Business profits were first taxed at the corporate level, and then the after-tax profits, once distributed to individual shareholders, were again subject to an individual income tax. This so-called classical system thus imposed double taxation on dividend income.

To ameliorate this double taxation, numerous preferential tax treatments such as corporate income tax exemption, investment tax credits, accelerated depreciation at the corporate level, and exemption of some amounts of dividend income at the individual level were included in the income tax law and relevant tax laws. This complicated income tax structure resulted in difficulties in tax administration, a higher compliance cost for taxpayers, and numerous tax loopholes. In order to create a sound tax environment to sharpen the ROC' international economic competitiveness, the government decided to implement the integrated system.

Most preferential tax treatments were prescribed under the Statute for Upgrading Industry and the income tax law, and were granted various reasons, including research and development, education and training, energy conservation, and to encourage savings and investment. Treatments included five-year exemptions from corporate income tax, investment tax credits, and accelerated depreciation. For intercorporate dividends, 80% were tax exempt at the corporation level. Dividend and interest income up to NT$270,000 for individual shareholders was tax exempt.

Before the 1997 tax reform, businesses tended to retain earnings to avoid being taxed twice. To maintain the equality of the tax burden between retained and distributed earnings, the ROC made some complicated rules in the income tax law. If the retained earnings of a business were over 50 % of paid-in capital, the tax authority should allot the retained earnings to the individual shareholders and collect taxes on these earnings whether these earnings were actually distributed or not. If a business selected to have a 10% surtax levied on retained earnings, the above-mentioned allotment of retained earnings to the shareholders would not apply. Nevertheless, as the Statute for Upgrading Industry prescribed, some important businesses designated by the government could retain earnings not exceeding two times paid-in capital and be free from the 10% surtax on retained earnings.

3.2.3 Policy Reasons for the 1997 Tax Reform

The previous classical tax system had many preferential tax treatments as described above. With this tax structure came some faults such as economic inefficiency and inequality in the tax burden. The following issues became public concerns:

1) Double taxation on dividend income

Before the 1997 tax reform, business profits were first taxed at the corporate level at a rate of 25 %, and the distributed after-tax profits were again subject to an individual income tax. The top tax rate for individual income tax was 40 %. The combined tax rate on distributed profits could thus reach as high as 55 %. This resulted in double taxation and made the tax burden on dividend income heavier than that on other kinds of income (such as interest income and rent income).

2) Distortion on business financing policy

Under the classical system, businesses preferred debt over equity financing because the debt interest could be deducted from the corporate income while dividends paid could not. This distortion could negatively impact a business financial soundness and hamper the development of the stock market.

As we know, dividend income disbursed to individual shareholders would again subject to individual income tax. It was not uncommon for businesses, especially small and medium-sized enterprises, to retain earnings in order to reduce the tax burden on shareholders, and the shareholders at higher marginal income tax rates would benefit more. As a result, the previous income tax system interfered to a certain extent with businesses dividend distribution policy and thus caused capital-operation inefficiency.

3) Complexity and inequality of the tax system

With the many preferential tax provisions in the classical system, the income tax structure had become very complex. Meanwhile, many professional accountants were hard pressed to fully comprehend the tax laws, which led to public criticism. From the viewpoint of the tax administrators, this complicated tax law also resulted in higher tax collection costs and compliance costs for taxpayers.

Furthermore, the selective tax preferences provided for in the Statute for Upgrading Industry created inequalities. From 1990 to 1994, the effective tax rate for the top 100 manufacturing enterprises was 13.8%, while for the high-tech enterprises located in the science-based industrial park in Hsinchu the rate was only 4.07%. It had become very obvious that the tax system was unfair in terms of tax burden among the different enterprises.

3.3 Tax System

Taiwan's current taxation structure is shows in the picture 3.1 and is consisted of two levels. There are sixteen taxes levied in Taiwan, ten are **direct taxes** – income tax, land tax (agricultural land tax, land value tax, land value increment tax), estate and gift tax, mine concession tax, house tax, securities transactions tax, futures transactions tax and deed tax; while the remaining six are **indirect taxes** – customs duties, commodity tax, value-added and non-value-added business tax, stamp tax, vehicle license tax, tobacco and wine tax, and amusement tax.

The above taxes can also be classified into two categories – **national taxes** – customs duties, income tax (profit-seeking enterprise income tax, individual consolidated income tax), mine concession tax, estate and gift tax, commodity tax, securities transactions tax; futures transactions tax, tobacco and alcohol tax and value-added and non-value-added business tax. The second categories are **metropolitan, county and administratively equivalent city taxes** – land tax (rural land tax, land value tax, and land value increment tax), house tax, vehicle license tax, stamp tax, deed tax and amusement tax.

Pic. 3.1 Tax System in Taiwan

Source: Ministry of Finance, ROC (2014), own elaboration

Each tax levied in the Republic of China is based on different law. The research and planning of inland taxes and customs duties are the responsibility of the Taxation and Tariff Commission of the Ministry of Finance (MOF); the drafting, enactment and interpretation of inland tax codes and the supervision of the collection and administration of inland taxes are the responsibility of the Department of Taxation, MOF; and the collection of taxes in the responsibility of the national tax administrations and local tax offices in various prefectures and municipalities. However, the collection of customs duties is supervised and administered by the Department of Customs Administrations, Directorate-General of Customs, MOF, and all local customs offices respectively.

In general, the Ministry of Finance is the ultimate government body which administers taxation at all levels in Taiwan. It is empowered to draft, enact and interpret taxation law, enforce taxation law at the administrative level, formulate taxation policies, and levy and collect taxes.

In order to encourage investment in the Republic of China, many tax benefits are accorded to profit-seeking enterprises in general, and to pioneer status enterprises, in particular. Investors, holding shares issued for the establishment or expansion of pioneer status enterprises, or investing in equipment for automation and pollution control, can especially enjoy a credit against their income tax for four years. Also, companies can depreciate their R&D equipment, testing equipment and energy-saving equipment over two years.

3.4 National Taxes

National taxes include individual income tax, profit-seeking enterprise income tax, estate and gift tax, customs duties, commodity tax, securities transaction tax and mining lot tax.

3.4.1 Individual Consolidated Income Tax

According to Act No. 29/2008 Coll., on Income Basic Tax, the income tax consists of individual consolidated income tax (personal income tax) and profit-seeking enterprise income tax (business income tax).

Individual consolidated income tax is levied on income derived from sources in the Republic of China (ROC) by a ROC resident or non-resident individual. A resident is required to prepare and submit an income tax return for the payment of the tax. Collection of the tax from a non-resident is through withholding at source or by other procedures provided under the Income Tax Law.

Individual consolidated income tax is levied on a calendar basis. Income received by taxpayers, their spouses, and qualified dependents claimed in tax returns shall be consolidated. However, the tax payable on the wage income of a spouse is allowed to be calculated separately.

A resident individual in the ROC means that he/she is domiciled and ordinarily residing in the ROC or he/she is not domiciled but has resided in the ROC for 183 days or more in a taxable year.

A non-resident individual in the ROC means that he/she is not a resident in the ROC, as defined in the preceding paragraph.

For individuals, the **tax year** is the calendar year.

ROC-Source Income

Income derived from sources in the ROC refers to the following:

- Dividends distributed by corporations registered under the Company Law of the ROC or by foreign companies authorized to operate in the ROC,
- Profits distributed by cooperatives or partnerships in the ROC,
- Remuneration for services rendered in the ROC, excluding that paid by an employer outside the ROC to an individual not residing but staying in the ROC for no more than 90 days during a taxable year,
- Interest received from all levels of government agencies, legal entities or resident individuals in the ROC,
- Rental income from properties situated in the ROC,
- Royalties received for the use of patents, trademarks, copyrights, confidential formulas, and franchises utilized in the ROC,
- Gains from sale of properties situated in the ROC,
- Remuneration for services rendered by ROC government employees stationed abroad,
- Profits derived from industry, commerce, farming, forestry, fishing, pasturage and mining,
- Awards or prizes received from participating in contests, games or lotteries in the ROC,
- Any other income received in the ROC.

Taxpayers

Any individual who receives income from an ROC source shall report and pay income tax. Individual taxpayers are divided into two categories, i.e. resident and non-resident taxpayers. Aliens and overseas Chinese are also characterized either as residents or nonresidents for tax purposes. The ROC source income received by aliens or overseas Chinese is taxed according to the status of the recipient.

Non-resident aliens or overseas Chinese who reside in the ROC for less than 183 days within a tax year are subject to a withholding tax at a fixed rate prescribed by regulations. If aliens or overseas Chinese resides in the ROC for a period more than 90 days but less than 183 days in a taxable year and receives remuneration from employers outside the ROC, the shall file a tax return for the above-mentioned remuneration and make tax payment calculated at a tax rate of twenty percent.

The income received by resident aliens or overseas Chinese in the ROC together with the income paid by their foreign employers for services rendered in the ROC shall be reported and taxed after deduction of personal exemptions and other deductions.

Net Consolidated Income

Individual consolidated income tax shall be assessed on the taxpayer's gross consolidated income in at particular tax year, less exemptions and deductions as follows:

1) **Exemption**

   Taxpayers, their spouses and qualified dependents are each entitled to a personal exemption of NT$74,000 for 2013. The exemption for a father or mother or any lineal ascendant of the taxpayer or his/her spouse, and himself aged over 70, is NT$111,000.

2) **Standard Deductions**

   If the taxpayer chooses to take the **standard deduction,** the amount of deduction for 2013 is NT$44,000 for a single person, and NT$67,000 for a married couple filing a joint return.

3) **Itemized Deductions**

   Taxpayers who do not take the standard deduction may claim itemized deductions as follows:

- Contributions and donations are deductible up to 20 % of gross consolidated income if given to officially registered educational, cultural, public welfare and charitable organizations or associations, and are fully deductible if given for the purpose of national defense, or military morale or given to the government.

- Premiums for life insurance, labor insurance, government employee insurance and national health insurance for the taxpayer and the taxpayer's spouse and lineal dependents are deductible up to NT$24,000 per person.
- Medical and childbirth expenses incurred by the taxpayer, the taxpayer's spouse and dependents and paid to public hospitals, specially contracted hospitals for civil service insurance, specially contracted hospitals or clinics for labor insurance or national health insurance, or those hospitals having complete and accurate accounting records as recognized by the Ministry of Finance are deductible. However, no deduction shall be made for the portion covered by the insurance payment.
- Uncompensated losses from disaster are deductible.
- Mortgage interest incurred and paid by taxpayers to financial institutions on loans acquired for the purpose of an owner-occupied residence shall be deductible up to NT$300,000 per filing unit.
- Rent for housing in the ROC paid by taxpayers, their spouses, and lineal dependants and used as their own residence rather than for business or performing professional services, may be deducted from their consolidated income to the extent of NT$120,000 per year per tax return. However, no deduction shall be made for taxpayers who have filed “Interest on a House Mortgage” on the same tax return.

4) Special Deductions

The taxpayer is entitled to the following special deductions irrespective of whether he/she selects the itemized or standard deduction:

- A special deduction against the gains from property transactions for any losses which were incurred from other property transactions for the same year,
- A special deduction for of income from salaries/wages up to a maximum of NT$75,000,
- A special deduction for savings and investment up to NT$74,000 for the disabled or handicapped,
- And for educational expenses up to NT$25,000.

The amount of exemption, standard deduction, special deduction of income from salary/wages and special deduction for the disabled handicapped or mental patients shall be adjusted according to the consumer price index when the index rises by more than 3 % compared to the prior adjustment year.

Tax Rates

The ROC individual consolidated income tax has adopted a progressive rate system. The bracket amounts shall be adjusted according to the consumer price index when the index rises by more than 10 % compared to the prior adjustment year. For 2014, the tax rate system is as follows:

Tab. 3.2 Tax brackets and rates of resident individual income tax

Net Taxable Income (NT$)	Rates (%)
1 – 520,000	5
520,001 – 1,170,000	12
1,170,001 – 2,350,000	20
2,350,001 – 4,400,000	30
4,400,001 and above	40

Source: Ministry of Finance, ROC (2014), own elaboration

Tax Incentives

Where the patent right is legally obtained by a national of the ROC through his creation or invention and is provided or sold to a company for use in the ROC with the approval of the competent authority of the enterprise concerned, half of the royalties paid by the said company for use thereof or the proceeds derived from selling such a patent right to the said company, shall be excluded from the amount of his consolidated income.

Where a foreign profit-seeking enterprise, having been approved to make investment in the ROC under the Statute for Investment by Overseas Chinese of the Statute for Investment by Foreign Nationals, has dispatched its directors, managerial officers or technical personnel to the ROC to perform temporary work, such as investment making, plant construction, or market survey, and has had them reside in the ROC for a period or periods of less than 183 days in aggregate in a tax year, their salaries paid outside the ROC by the said foreign profit-seeking enterprise shall not be considered an income sourced in the ROC.

In order to encourage the establishment or expansion of the emerging, important and strategic industries, if the registered shares subscribed or underwritten are issued by such industries and held by the investors for a period exceeding three years, the investors may credit up to 10 % of the price paid for the acquisition of such stocks against their income tax payable. If the amount of individual consolidated income tax payable for that year is less that the deductible amount, the balance of such deductible amount may be used to deduct the individual consolidated income tax payable within the ensuing four year. This credit is limited to 50 % of the income tax payable in each year; however, this limit shall not apply to the last year.

3.4.2 Profit-Seeking Enterprise Income Tax

Unlike the company or corporate tax system adopted by other countries, the profit-seeking enterprise income tax is imposed on worldwide income of companies, sole proprietorships, partnerships, and other forms of business organizations which have their head offices located in the ROC, and also on ROC-source income of an enterprise which has no permanent establishment in the ROC. Income for tax purposes is computed according to generally accepted accounting principles, and adjusted for certain statutory provisions. Necessary and ordinary expenses of a profit-seeking enterprise are deductible, provided these are adequately supported by documentation.

In addition, in order to create a better tax environment to encourage investment, the Ministry of Finance decided to eliminate double taxation by implementing the integration system.

By adopting the imputation credit prototype to fully integrate the income tax system, shareholders will be allowed a tax credit of the profit-seeking enterprise income tax paid on dividends against their individual income tax liability. However, due to the difference between the rate of profit-seeking enterprise income tax and individual income tax, enterprises may be induced to retain earnings therefrom. Therefore, a provision was added whereby undistributed earnings, consisting of after-tax income retained by a company rather than being distributed as dividends to shareholders in the then current year, are subject to an additional 10% corporate income surtax.

Generally speaking, the aforesaid tax reform takes into consideration both the fairness of taxation and the efficiency of the overall system. With respect to the fairness of taxation, the new system will reduce the tax burden of taxpayers by deducting their profit-seeking enterprise income tax from their individual income tax and reducing the highest marginal tax rate from 55 % to 40 %. With respect to the efficiency of the overall system, the new system will improve overall economic environment and strengthen ability to deal with future challenges and competition.

Tax Scope

Where a profit-seeking enterprise has its head office located in the ROC, the combined income of the entire enterprise within or outside the country shall be subject to the profit-seeking enterprise income tax. However, income tax paid to foreign governments on income derived outside the ROC can be claimed by the enterprise as a credit against its total ROC income tax liability. However, this credit cannot exceed the ROC tax liability on such additional income.

Where a profit-seeking enterprise has its head office located outside the territory of the ROC, but with all or part of its permanent establishments in the ROC, but with all or part of its permanent establishments in the ROC, the profit-seeking enterprise income tax shall be levied on that part of the business operating in the ROC.

Where a profit-seeking enterprise has no permanent establishment within the territory of the ROC but has ROC-source income, the tax payable shall withheld at the respective source at a rate prescribed by regulations.

Registration and Account-Keeping

A profit-seeking enterprise is required to **register** with the tax office before commencement of business, and is also required to register with the tax office within fifteen days upon dissolution, closure, amalgamation, ownership transfer, or change of its name, address, responsible person or business scope. When a profit-seeking enterprise increases or decreases its capital, it shall, within fifteen days therefrom, file an application for registration amendment.

A profit-seeking enterprise shall keep sufficient and accurate account books, vouchers and accounting records to calculate its total amount of business income. Accounting of a company shall be on the accrual basis. With the approval of the tax office, non-corporate business firms may adopt the cash basis for accounting. The tax year shall be the calendar year. However, a profit-seeking enterprise may change the commencing and expiring dates of its fiscal year upon approval of the tax authorities.

Tab. 3.3 Company tax rates

Taxable Income	Rates (%)
Less than NT$120,000	0
NT$120,001 and over	17

Source: Ministry of Finance, ROC (2014), own elaboration

Expenses and Loses

Expenses and loses include the following items:

- Interest on capital which is paid out from the distribution of profit shall not be listed as expense or loss,
- Interest payable on loans within a fiscal year is deductible as expense of that year,
- Salaries of the staff employees and workers that should be paid irrespective of whether the enterprise is at a profit or loss may be considered as expense,
- A reserve for retirement pensions of no more than 4 % of the total salaries and wages paid in that year, or a reserve fund having been set up for retirement pensions that is entirely separate from the enterprise itself and whose amount does not exceed 8 % of the total salaries and wages paid in that year, may be considered as expense for the year,
- All those profit-seeking enterprises which are subject to the application of the Labor Standards Law, with due approval from the local tax authority, may each year set aside an amount not to exceed 15 % of the total salaries and wages paid in that year as retirement reserve fund, and the appropriation thus made may be considered as expense for the year,
- Expenditure incurred in the expansion, replacement, improvement or repair of buildings, vessels, machinery, tools, apparatus, appliances and other equipment for use in business that results in an increase of the value or efficiency that cannot be exhausted within two years shall not be considered as expense or loss,
- For damages due to force majeure, the portion that has been covered by insurance shall not be listed as expense or loss,
- Contributions and donations made to officially registered educational, cultural, public welfare and charitable organizations or associations are deductible, but

cannot exceed 10 % of taxpayer's income. Contributions and donations made for assisting national defense, military morale, or made to the government as well as those specially permitted by the Ministry of Finance shall be fully deductible,

- Entertainment, meal and gift expenses incurred through and directly related to the active conduct of business,
- Losses incurred not in the course of operation of business or related business, household expenditures, and the fines and surcharges for belated reporting, non reporting, under-estimation and belated payment as provided in various tax laws shall not be considered as expenses or losses,
- Losses incurred in the operation of business of prior years shall not be included in the computation of the current year. However, in that keeps a complete set of account books, using the Blue Returns or with the account audited by a CPA for both the loss-year and deduction-reporting year, and filing the return in time, the loss may be carried forward for five years.

Computation of the Income

In principle, income of a profit-seeking enterprise is computed by subtracting costs, expenses, losses and taxes from the current year's total revenue to arrive at the amount of net income. Special rules of computation are provided by tax laws for the income of international transportation companies, the foreign motion picture industry and sales on instalment payment plans, and the construction industry, so as to suit the specific requirements of each industry.

If the business has been in operation for less than one year, the amount of income for the actual period of operation should be converted proportionately on an annual basis to a yearly income. If the period of actual operation is less than one month, it should be deemed as one month.

Tax-Exempt Organizations and Institutions

Tax-Exempt organizations and istitutions are following:

- Income derived by educational, cultural, public welfare and charitable organizations or associations which are established and operated in conformity with the tax exemption criteria prescribed by the Executive Yuan shall be exempt from the profit-seeking enterprise income tax,

- Profits of consumers cooperatives operated in accordance with the law, doing no business with non-members, shall be exempt from taxation,
- All kinds of income derived by all levels of government and public enterprises owned by the government, with all of their fiscal surplus or deficit included in the budget, and not having profit-seeking as their purpose, shall be exempt from taxation,
- Income obtained from the operation inside the territory of the ROC by a foreign enterprise engaged in international transportation may be exempt from taxation, provided that reciprocal treatment is accorded to an international transport enterprise of the ROC.

Items not Included in Taxable Income

Items which are not included in taxable income contain:

- Interest derived from loans offered to the government of the ROC or legal entities in the ROC by foreign governments or international economic development banking institutions, and interest derived from loans offered by a foreign financial institution to its branches or to other financial institutions in the ROC shall be exempt from taxation,
- Interest derived from loans extended to legal entities in the ROC by foreign financial institutions approved by the Ministry of Finance for financing important economic construction projects shall be exempt from taxation,
- Interest derived from favourable-interest export loans offered to or guaranteed for legal entities of the Republic of China by foreign government institutions and foreign financial institutions which are specialized in offering export loans or guarantees shall be exempt from taxation,
- Royalties paid to a foreign enterprise for the use of its patent rights, trademarks, and various kinds of special licensed rights in order to introduce new production technology or new products, improve product quality, or reduce production costs under the approval of the competent authority as a special case, as well as remuneration paid to foreign enterprises for the technical services rendered in construction of a factory for an important productive enterprise determined and approved as such by the competent authority shall be exempt from taxation,

- Proceeds from land sale and income from a transaction of property disposed for the purpose of war stockpiling in accordance with government regulations shall be also exempt from taxation.

3.4.3 Customs Duties

Relevant Laws and Regulations are Customs Law and Rules Governing the Implementation of the Customs Law, Customs Import Tariff of the ROC, Regulations Governing the Offsetting or Refund of Duties and Taxes on the Raw Materials of Exported Products, Regulations Governing Customs Bonded Factories and Regulations Governing the Establishment and Management of Bonded Warehouses.

The tax base shall be the customs value of the goods imported from abroad.

The taxpayer can be identified as the consignee of imported good or the bearer of the bill of lading, or the holder of imported goods.

Tax Calculation

Import duty payable on imported goods shall be based on the customs value of imported goods, or on quantity of imported goods as specified by Customs Import Tariff. The customs value of imported goods liable to ad valorem duty shall be determined and calculated on the basis of their transaction value. If the customs value of imported goods cannot be determined by their transaction value, customs may determine the customs value by following methods in sequence:

- The transaction value of identical goods,
- The transaction value of similar goods,
- The deductive value of imported goods or identical or similar goods,
- The computed value consisting of production cost, profit and general expense, and other expense,
- Other reasonable value.

Duty Rates

In commodity classification, the ROC adopts the Harmonized Commodity Description and Coding System. With regard to the form of tariffs, the ROC employs ad valore, specific and compound tariffs. The duty rates are specified in two columns, applicable respectively to goods imported from WTO members, or countries or areas having reciprocal treatment with the Republic of China and from those having no such treatment. When there is no rate in the second column, the rate in the first column shall apply.

Exemption of Customs Duties

Besides those of imports which are zero-rate as provided in the Customs Import Tariff, any of the following situations shall be exempt from customs import duties:

- Those advertising materials, samples of no commercial value, personal effects carried by passengers for their own use and so on, described by Customs Law and within the scope defined by the MOF, are exempt from customs import duties,
- Machinery, equipment, raw materials, fuel, and semi-finished products imported for processing by manufacturers located in Export Processing Zones or the Science-based Industrial Park,
- A private organization or its direct contractors importing goods such as construction machinery and specific transportation tools used for implementation of construction may apply for duty exemption.

Offset and Refund of Customs Duties and Commodity Tax

Customs duties and commodity taxes payable on raw materials for use in the manufacture of products for export may be recorded on account against guarantee at the time of importation of raw materials and offset after exportation of the finished products; on the other hand, where customs duties and commodity taxes already paid at the time of importation, may be applied duty refund after exportation.

Manufactures may, within one year and six months from the date following the day on which raw materials were released for importation, apply to customs with relevant export documents for duty refund or to offset the accounts for export products manufactured from imported raw materials. No application for duty refund or offsetting the accounts shall be accepted after expiry of such time limit.

3.4.4 Value-Added and Non-Value-Added Business Tax

Relevant Laws and Regulations are Value-added and Non-value-added Business Tax Law (VANVABTL), Regulation of Business Tax Law and Rules Governing the Use of the Uniform Invoices.

Scope and Taxpayers

According to Article 1 of the VANVABTL, business tax, in the form of VAT and non VAT, shall be levied upon the supply of goods and services within the territory of the Republic of China as well as upon imported goods. In other words, any transaction of goods or services within the territory of the ROC, including importation of goods, is subject to the business tax.

The business tax liability is imposed on the following taxpayers:

- A business entity which supplies goods or services,
- A consignee or holder of imported goods,
- A recipient of services supplied by a foreign enterprise, organization, institution or association which has no permanent business establishment within the territory of the ROC, and local agent who is appointed by an international transport enterprise having no permanent business establishment within the territory of the ROC.

The tax base consists of the total amount of sales of goods or services when they are sold or rendered to buyers.

Zero-Rating and Non-Credit Exemption

The VAT rates shall be zero for the sales of goods or services of the following items:

- Export of goods,
- Services related to exports or services supplied within the territory of the ROC but used in foreign countries,
- Goods sold to outbound or transit passengers at the tax-free shops set up according to the law,
- The sale of machinery and equipment, material, supplies, fuel and unfinished goods to export enterprises inside a duty-free export processing zone, to enterprises inside the Science-based Industrial Park, or to bonded factories or bonded warehouses supervised by the customs house,
- International transportation, with the proviso that foreign transport enterprises engaged in international transportation within the territory of the ROC shall qualify for the zero tax rates only if reciprocal treatment, or exemption from

similar taxes, is given to the international transport enterprises of the ROC by the foreign country in which it is incorporated,

- Vessels and aircraft used in international transportation and deep sea fishing boats,
- The sales of goods and maintenance services to vessels and aircraft used for international transportation and deep sea fishing boats.

The sales of the following goods or services are exempted without credit for VAT previously paid:

- The sale of land,
- The water supplied to farmland for irrigation,
- The medical services, medicine, ward lodging and meals provided by hospitals, clinics and sanitariums,
- The rearing and nursing services offered by nursing homes for children, the elderly, or handicapped,
- The education services offered by schools, kindergartens, and other educational and cultural institutions including cultural services offered under government's consignment,
- Textbooks issued by the publishing industry and authorized by education authorities for use at various levels of schools and important specialized academic writings legally awarded by the government,
- The goods or services sold by student-run shops of vocational schools which do not serve outsiders,
- Newspapers, magazines, newsletters, advertisements, television and broadcasting programs produces and sold by legally registered newspaper and magazine publishers, news agencies, and television and broadcasting stations, excluding the advertisements sold by newspaper publishers and advertisements broadcast by television stations,
- The goods or services sold to their members by cooperatives managed in accordance with the law; and business consigned by government to said cooperatives,
- The goods or services sold by farmers', fishermen's, workers', commercial and industrial associations to their respective members in accordance with the law; and business consigned by government to said associations,

- The proceeds from goods sold in tenders, charity sales and charity shows held by charity and relief institutions organized according to the law, provided that the total proceeds are solely used by said institutions after deducting the necessary expenditures for the tenders, charity sales and charity shows,
- The goods or services sold by employee welfare organizations of government bodies, state enterprises and social organizations which are organized and operated under relevant laws and are not open to the public,
- The goods or services sold by prison workshops and their finished goods stores,
- Services rendered by post and telecommunication offices in accordance with the law, and business consigned under government mandate,
- Monopoly goods sold at statutory prices by state-owned monopoly industries and by business entities which are authorized to sell such monopoly goods,
- The service of consigned sales of stamp tax tickets and postage stamps,
- The goods or services sold by peddlers or street vendors,
- Feed and unprocessed raw agricultural, forestry, fishing and livestock products, and their by-products,
- The fish caught and sold by fishermen,
- The sales of rice and wheat flour and the service of husking rice,
- The sales of fixed assets which are not regularly traded by business entities which compute their business tax,
- Insurance policies accepted by the insurance enterprises for insurance promoted by the government, covering military, government and educational entities and their dependents, laborers, students, farmers, fishermen, exports, and compulsory automobile third party liability insurance, and reinsurance premiums paid out by insurance enterprises from premiums received by the same, and life insurance policy reserves, annuity insurance policy reserves and health insurance policy reserves, provide, however, that this does not include income, other benefits and return of policy reserves received on termination of life insurance, annuity insurance and health insurance,
- The bonds issued by all levels of government and securities upon which a securities transactions tax has been imposed in accordance with the law,
- Residual or obsolete goods sold at tenders by all levels of government,

- The sales of weapons, warships, aircraft, tanks and reconnaissance communication equipment for military use to defense agencies,
- Fertilizer, pesticides, veterinary drugs, agricultural machinery, transportation equipment for farmland, and fuel and electricity used by such machinery and equipment,
- Fishing boats for coastal or inshore fishery, as well as machinery, equipment, nets and fuel used by fishing boats,
- Interest on the flow of funds between head and branch offices of banking enterprises, the revenue of trust and investment enterprise derived from trust funds in the manner designated by the trustor, provided the trustor bears the risk of loss and enjoys the proceeds, and unredeemed items where the proceeds arising from their sale by pawnshops do not exceed the aggregate of principal and interest receivable,
- Gold bars, gold bricks, gold foil, gold coins and gold ornaments, but the processing services are not included,
- The research services supplied by scientific or technological institutions which are established under approval from the government,
- The sales amount of operating financial derivatives, corporate bonds, financial bonds, New Taiwan Dollar interbank call loans and foreign currency call loans; however, commissions and service charges of these products are not included.

Tax Rate

VAT at 5 % is applies to business persons in all industries under the VAT system. Export sales and export-related services, however, are subject to zero tax rate. Financial institutions are subject to business turnover tax. Professional practitioners are not subject to VAT or business turnover tax for service revenue earned.

Currently, the tax rate that applies to banks, insurance companies, trust and investment companies, securities traders, futures traders, bills finance companies and pawnshops is 2 % (except for reinsurance premium income, for which the rate is 1 %).

Profit-seeking enterprises (such as manufacturers, wholesalers or retailers) are collectors of VAT and are required to pay the net VAT, being taxes collected from sales less taxes paid on purchases and business expenses, to their district tax offices and file returns. Zero ratings and exemptions exist for some items.

3.4.5 Commodity Tax

Commodity tax is imposed on certain designated commodities whether manufactured locally or imported. Commodity tax on taxable commodities is based on the value or quantities of commodities manufactured or imported depending on the category of commodities.

Taxpayer

For taxable commodities manufactured locally, the respective manufacturers or producers shall be the taxpayers. Manufacturers which are paid for manufacturing taxable commodities shall also be liable for payment of the commodity tax. The consignees or holders of the bills of lading or holders of taxable commodities imported from abroad shall also be taxpayers.

Taxable Value

Taxable value for domestically and imported commodities is following:

1. **Domestically produces commodities**

   The taxable value of commodities manufactured locally is calculated according to the formula 3.4.

$$Taxable\ value = \frac{selling\ price}{(1 + tax\ rate)} \tag{3.4}$$

2. **Imported commodities**

   The taxable value shall be the total of the value on which customs duties are assessed.

Taxable Commodity and its Tax Rate or Tax Amount

Seven classifications of commodities, such as rubber tires, cement, beverages, flat-glass, oil or gas, electric appliances which are subject to commodity tax under the existing Statute for Commodity Tax, are to be taxed on an ad valorem or specific basis at the following tax rates or tax amount. We can see all taxable commodities and tax rates in table 3.5.

Tab. 3.5 Taxable Commodity

Commodities	Tax Rate or Tax Amount
Rubber tires	10 % - 15 %
Cement	NT$280/MT - NT$600/MT
Beverages (machine-made cool and soft drinks)	8 % and 15 %
Flat-glass	10 %
Oil/gas	NT$110/KL - NT$6,830/KL
Electric appliances	10 % - 20 %
Vehicles	15 % - 35 %

Source: Ministry of Finance, ROC (2014), own elaboration

Exemption and Refund

Commodities having any of the following conditions shall be **exempt** from the commodity tax:

- Raw materials used for manufacturing other taxable commodities,
- Export goods,
- Goods for exhibition, but not for sale,
- Goods supplied for military morale purposes,
- Goods supplied directly for military use with the approval of the Ministry of National Defense.

Commodity tax paid or recorded on account as paid on goods having any of the following conditions shall be **refunded** or offset:

- Export goods,
- Raw materials used for manufacturing export goods,
- Unsaleable goods returned to factory for reprocessing or for refining into similar goods which are subject to commodity tax,

- Goods unsaleable for reason of transformation or damage.

3.4.6 Tobacco and Alcohol Tax

The tax base of tobacco and alcohol tax shall consist of those tobacco products and alcoholic beverages listed in the Tobacco and Alcohol Tax Law, whether manufactured domestically or imported from abroad.

Taxpayers

The respective manufacturers or producers of taxable tobacco products and alcoholic beverages manufactured domestically. The consignees or receivers of the goods or holders of the bill of landing or holders of the goods imported from abroad. And untaxed tobacco products and alcoholic beverages auctioned off by courts or other agencies, the purchasers shall be the taxpayers.

Taxable Goods and Tax Amounts

Tobacco products and alcoholic beverages shall have a tax levied in accordance with the Tobacco and Alcohol Tax Law and are to be taxed on specific basis at the following tax amount:

Tab. 3.6 Taxable Goods

Taxable good	Tax amounts (NT$)
Tobacco products	590/KSK[8]
Alcoholic beverages	7/LTR - 185/LTR
Rice spirits	185/LTR
Cooking alcoholic beverages	22/LTR
Other alcoholic beverages	7/LTR - 185/LTR
Ethyl alcohol	11/LTR

Source: Ministry of Finance, ROC (2014), own elaboration

[8] The Health and Welfare Surcharge shall also be imposed on tobacco products – NT$250/KSK.

Exemption and Refund

According to Act No. 27/2004 Coll., on Tobacco an Alcohol Tax, tobacco products and alcoholic beverages having any of the following conditions shall be **exempt** from the tobacco and alcohol tax:

- Goods used for the manufacturing of other taxable tobacco products or alcoholic beverages,
- Goods exported abroad,
- Goods used for exhibition purposes and following exhibition, either taken back in their original form to the factory or exported,
- Goods brought in from abroad as personal effects by travellers or crewmembers for personal use, the quantity of which does not exceed the limitation prescribed by the government.

Taxes paid on tobacco products and alcoholic beverages having any of the following conditions shall be **refunded:**

- Goods exported abroad,
- Goods used as raw materials for manufacturing export goods,
- Goods returned to the factory for reprocessing or refining into a taxable tobacco product or alcoholic beverage,
- Goods destroyed due to damage or the quality not conforming to the standard prescribed by the government,
- Goods physically destroyed by flood, fire or the uncontrollable force while in transit or storage.

Returns and Payments

The manufacturer shall pay to the government treasury, prior to the 15th of the following month, the tax payable on the tobacco products or alcoholic beverages removed from the factory in the current month, and file with the competent tax collection authority a tax collection report in the form prescribed by the Ministry of Finance, setting out the tax payable and attaching the tax payment receipt thereto. This provision also applies to the case where there is no tax payable.

In the case of importation of taxable tobacco products or alcoholic beverage, the taxpayer shall file a report with customs office, and the tobacco or alcohol tax shall be collected by the customs office on behalf of the competent tax collection authority.

In case a taxpayer fails to file a return within the above-mentioned time limit, the tax collection authority should notify him to file a return and pay the tax within three days. Failing to do so will result in an investigation to be conducted by the tax office and the amount of the deferred tax will be determined. A further delay in making payment will cause his product not to be released from the factory until the tax is paid.

3.4.7 Mine Concession Tax

A concession used for mining activity shall be subject to taxation. The mine concession holder is permitted to prospect or mine the mineral specified in the certificate, and other associated heterogeneous minerals in the same deposit.

Taxpayers

The holder of a mine concession or the lessee of a mine concession leased from the government shall be the taxpayer for the mine concession tax.

Tax Rates

A mine concession for prospecting or mining will apply to different tax rates as follows:

1. **Prospecting concession**

   Annually, NT$60 per hectare or for placer in riverbed, NT$60 per kilometre of watercourse.
2. **Mining concession**

   Annually, NT$180 per hectare or per kilometre of watercourse.

Exemption and Reduction

To encourage the mine concession holder to exploit mineral resources, while preventing the holder from refusing to pay the mine concession tax, the government promulgates the Mining Law including the following reduction and exemption:

- The mine concession tax can be deducted from either business tax or mineral product tax if the tax-paid document is provided,
- The mine concession tax can be exempted for the period of work suspended due to a strike or other force majeure if the work is suspended for more than two months.

3.4.8 Securities Transactions Tax (STT)

STT is imposed upon securities exchange transactions. Securities are defined as shares or share certificates issued by companies, corporate bonds, any securities offered to the public which have been duly approved by the government and government bonds.

Taxpayer

The tax shall be paid by the seller of securities but collected through the tax agents who are sales agents, brokers, or transferees in case of direct transactions.

Tax Rates

According to Act No. 22/2010 Coll., the Securities Transactions Tax, the tax shall be calculated at the following rates for each securities exchange transaction price:

- 0.3 % of the shares or share certificated issued by companies,
- 0.1 % of the corporate bonds or any securities offered to the public and duly approved by the government.

Exemptions

All government bonds are exempt from the STT. The following types of securities are also exempt from the STT:

- Any new shares issued by a new company or by a company in connection with its capital increase,
- Any corporate bonds initially issued and offered to the public, which have been duly approved by the competent authority,
- Any securities acquired by succession or donation.

3.5 Metropolitan, County and Administratively Equivalent City Taxes

As its been mentioned, taxes are categorized as national taxes and metropolitan, county and city taxes. National taxes are allocated to the central government. While metropolitan, county and city taxes are allocated to the local governments (special metropolitan districts, counties or cities). Metropolitan, county and administratively equivalent city taxes consist of land taxes, house tax, vehicle license tax, deed tax, stamp tax and amusement tax (Ichimura, Bahl, 2009, p. 287).

3.5.1 Land Tax

Three types of land tax are imposed. We can distinguish rural land tax, land value tax, and land value increment tax.

Rural land tax is applicable to rural or urban land used for agricultural production. The rural land tax has not been levied since 1987.

All land having value is subject to **land value tax** with a flat rate of 1 % applicable to land for industrial use. For residential land meeting certain requirements for self-use, the flat rate is 0.2 %. For land reserved for public buildings, the rate is 0.6 % if the land is used for buildings during the reserved period. Land used for other purposes is subject to a progressive rate of tax ranging from 1 % to 5.5 %.

Land value increment tax is collected on the total incremental value at the time of the transfer of the title of land which had previously been set at a certain value. The sale of land gives rise to tax imposed on the increase in the assessed value since the previous sale or transfer. Rates vary from 20 % to 40 % on a progressive scale except for:

- Self-use residential land under certain requirements is taxed at 10 %,
- Transfers by inheritance, government approved sales of industrial land and sales followed by replacement purchases in certain circumstances are exempt.

A discount of between 20 % and 40 % from the amount taxed over the 20% rate is available where the land has previously been held for over 20 years.

Taxpayers

The taxpayer shall be identified as follows:

- Land title owner,
- For land with an established Dien right[9], the Dien right owner,
- For publicly owned land, the administrator,

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[9] According to the ROC Civil Code, Dien is a form of lease for a maximum period of 30 years or less. The Dien-holder takes possession of another person's real estate and has the right to use it and enjoy the income therefrom.

- For generally and jointly owned land, the joint owners shall be responsible for their respective parts,
- For trust land, the trustee.

3.5.2 House tax

The tax base shall consist of houses and other construction which increase the value of the houses. In table 3.7 we can see selected tax rates according to classification of houses in Taiwan.

Taxpayer

The taxpayer shall be identified as the owner or Dien right owner.

Tab. 3.7 Tax Rates

Classification of Houses	Max. Rates	Min. Rates	Actual Rates Enforced	Rate
House for residential purposes	2 %	1.2 %	Taiwan Province, Taipei City, Kaohsiung City	1.2 %
House for business purposes	5 %	3 %	Taiwan Province, Taipei City, Kaohsiung City	3 %
Houses for private hospitals, clinics professional offices, an the premises of non-profit organizations	2.5 %	1.5 %	Taiwan Province, Taipei City, Kaohsiung City	2 %

Source: Ministry of Finance, ROC (2014), own elaboration

Examples of **exemption** are exemption for public or private buildings such as office buildings of government agencies or military institutes, school buildings and hospital buildings, research or laboratory houses.

The house tax on the following private houses shall be **reduced by half:**

- Building owned by a factory duly registered according to law and used directly for production,
- Warehouses and houses used for testing purposes which are held for their own and used by a farmers association,
- Houses of which mmore than 30 % but less than 50 % of the floor area has been destroyed.

3.5.3 Deed Tax

The tax base shall consist of buying and selling, establishing Dien right, exchanges, donations, partitions and legal possession of real estate excluding those where land value increment tax is in effect. The following table 3.8 can be seen rates and taxpayers of deed tax.

Tab. 3.8 Tax Rates and Taxayers

Kind of Deed	Rate (%)	Taxpayer
Buying and selling	6	Buyer
Establishing Dien right	4	Dien right owner
Exchange	2	Parties to the exchange
Donation	6	Donee
Partition	2	Owners for respetive parts
Possession	6	Possessor

Source: Ministry of Finance, ROC (2014), own elaboration

Exemption and Reduction

Profit-seeking enterprises which are specifically approved by the Ministry of Economic Affairs for a merger or amalgamation to become a productive enterprise for the purpose of promoting rationalized operation and management shall be **exempt** from deed tax payable as a result of such merger or amalgamation.

Where the land and plant building previously used directly by the enterprise as factory site and/or mining district is sold in accordance with the approved merger or amalgamation plan, the proceeds realized from such sale and subsequently used for payment in whole for purchase or acquisition of new land and plant buildings under the same plan shall be **exempt** from deed tax payable by the merged enterprise.

The transfer of trust house based on trust relationship between the interested parties shall not be taxable.

3.5.4 Stamp Tax

The items currently subject to levy of the stamp tax are:

- Receipts of monetary payments such as payment record, the receipt, slip, release and bank passbook,
- Deed for sale of movable property,
- Contracting agreements,
- Deeds or contract for sale, gratuitous transfers, partitions or exchanges of real estate or pledges of lien on real estate to be submitted to government agencies for registration.

Taxpayers

The taxpayers of the stamp tax vary depending upon the category of documentation. In principle, the person who executes contracts, deeds or receipts shall be subject to the levy of the stamp tax and such person shall pay the stamp taxes by affixing stamps purchased at government designated offices. They include:

- A person who executes monetary receipts,
- A person who executes contracting agreements,
- A person who executes contracts or deeds for sale, gratuitous transfers, partitions or exchanges of real estate or pledge of lien on real estate,
- A person who executes contracts for the sale of movable property.

Tax Rates

Monetary receipts at 0.4 % of the amount received, except money deposited by bidders, which is set at 0.1 % of deposit. Contracting agreement at 0.1 % of the contract price. Contracts or deeds for sale, gratuitous transfers, exchanges or partitions of real estate at 0.1 % of the contract price or value of the real estate. Contracts for sale of movable property at NT$12 per piece.

Exemptions

Contracts or deeds executed by all levels of government agencies, monetary receipts executed by public or private schools or colleges, bus tickets, boat tickets, air fare tickets or other tickets for carriage of passengers and so on.

3.5.5 Vehicle License Tax

The tax base of vehicle license tax shall consist of motor-driven vehicles and vessels which use public roads and rivers.

Taxpayer

The taxpayer shall be identified as any owner or user of the above means of transportation. In the following table 3.9 we can see different tax rates according to various types of vehicles.

Tab. 3.9 Tax Rates of various types of vehicles

Types of vehicle	Rates (per year)
Sedans	NT$900 - NT$151,200
Buses	NT$1,080 - NT$16,200
Trucks	NT$900 - NT$16,200
Motorcycles	NT$1,650 - NT$23,040

Source: Ministry of Finance, ROC (2014), own elaboration

Exemptions

The following forms of transportation are exempt from the vehicle license tax:

- Military transportation,
- Vessels on which tonnage levies have already been collected by a customs house which are navigating within the jurisdiction of the said customs house,
- Specially equipped vehicles used exclusively for public investigation unit cars, detective and investigation unit cars, vehicles used for transporting prisoner, fire engines, specialized relief vehicles and ocean rescue vessels,
- Specially equipped vehicles belonging to public hospitals or other public organizations and used exclusively for public health purposes, such as

ambulances, hospital vehicles, water spraying vehicles, sewage trucks, and refuse vehicles,

- Cars owned by foreign nationals who enjoy diplomatic privileges, provided that approval has been granted by the Ministry of Foreign Affairs and special licenses have been obtained from the transportation authorities,
- Specially marked transportation vehicles used exclusively for transport of the mail,
- Specially marked or equipped circuit cars which are used exclusively for promoting education and culture,
- One vehicle owned and used only by the mentally or physically disabled that has identified document issued by the authorities and driving licenses. However, for the mentally or physically disabled, who can't get a driving license, one vehicle only for their own family is exempt,
- Buses used exclusively for mass transportation and owned by enterprises of the highway bus industry or urban district bus industry, where these enterprises have been approved by the competent authority,
- Transportation equipment driven in the offshore island and its vehicle license obtained from the transportation authorities of that offshore island.

3.5.6 Amusement Tax

Amusement tax is part of metropolitan and city taxes, and refers to tax paid on various forms of entertainment.

Tax Base

According to Act No. 23/2004 Coll., Amusement Tax, the base for amusement tax shall consist of the prices of tickets sold or the fees collected by amusement businesses that provide equipment or activities for entertainment. Such amusement businesses include:

- Cinemas,
- Occupational singing, story-telling, dancing, circus, magic, and acrobatic shows, as well as all kinds of performances in night clubs,
- Drama, music performances, amateur singing, dancing,
- All kinds of competition and contests involving skill,
- Dance halls,

- Billiard halls, bowling alleys, golf clubs and so on, that are provided as a form of recreation for consumers.

Taxpayer and Tax-Collecting Agent

The taxes are paid by the customers of the above activities, but collected through tax agents who are providers or sponsors of sites, equipment or activities for amusement.

Tax Rates

The tax rates rage from 5 % to 100 % depending on the nature of the amusement.

Exemption

Those who meet any of the following regulations are exempt from the amusement tax:

- All kinds of amusement provided by educational, cultural, public welfare, charitable institutions or organizations conformable to an organization devoted to public welfare,
- All kinds of amusement, where the total proceeds, after deducting necessary expenses, are used for disaster relief or military morale purposes, provided, however, that the deductible expenses shall not exceed 20 % of the total proceeds,
- Cultural and amusement activities provided temporarily, exclusively, and free of charge by institutions, organizations, privately-owned or publicly-owned enterprises, schools, and other organizations.

4 MAIN DIFFERENCES BETWEEN TAX SYSTEM IN THE CZECH REPUBLIC AND IN TAIWAN

The fourth chapter provides a background for more in-depth discussion on differences between the tax system in the Czech Republic and Taiwan.

4.1 Peculiarities of Taiwan's Tax System

If we look at the Taiwan's tax system, we can see not only different tax structure and tax rates, but also completely different tax policy. The following sub-chapters show the biggest differences and attractions in the Taiwanese tax system.

4.1.1 Uniform Invoice Tax Lottery

Taiwan's government, in the effort to reduce retail tax evasion, has implemented a receipt lottery system. Simply stated, when you purchase something, be it a product or service, the vendor must provide a proper receipt for the sale. This in turn is recorded as business income which the government can collect taxes on.

History of Uniform Invoice Tax Lottery

The Uniform Invoice or Unified Invoice, better known as the Taiwan receipt lottery is a form of state lottery managed by the Ministry of Finance of the Republic of China.

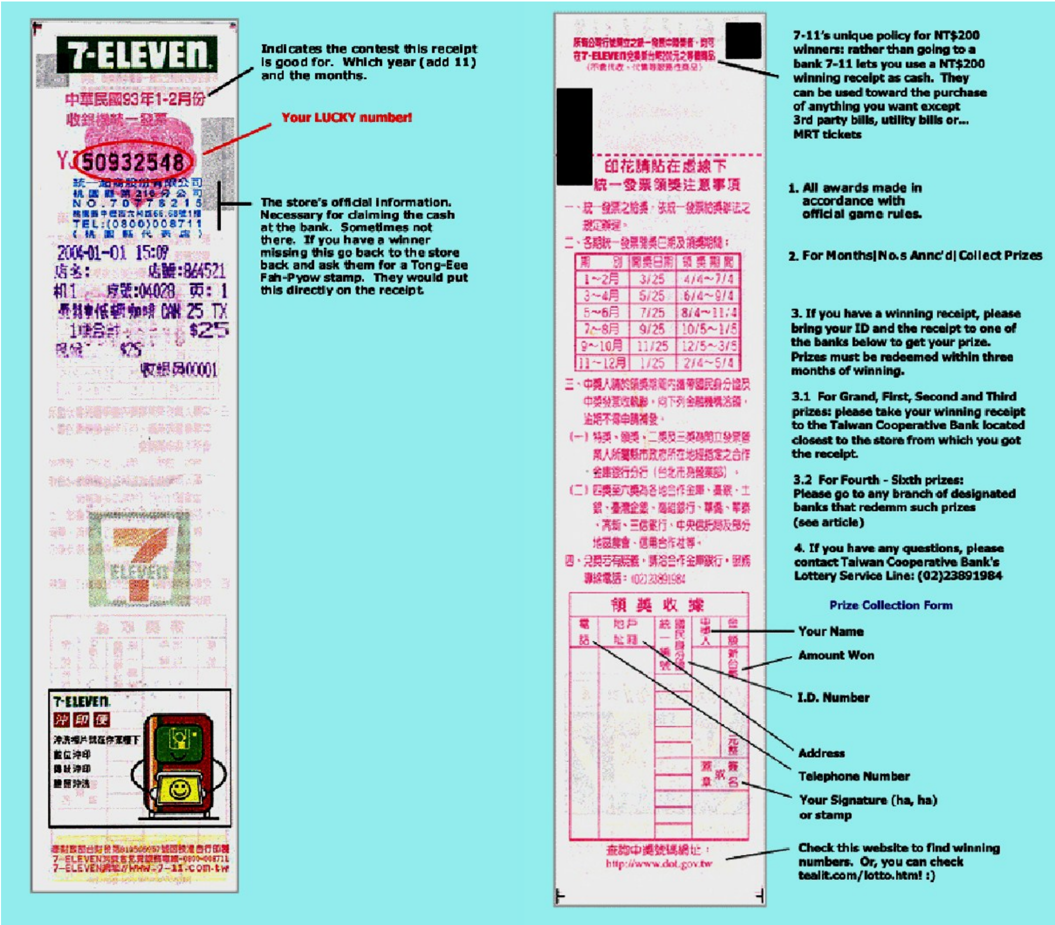
The lottery was conceptualized by the first Kuomingtang (KMT) finance chief Jen Hsien-qun to boost tax revenues in the early days of the KMT government. The introduction of this lottery on January 1, 1951 encouraged locals to obtain receipts for every purchase made with businesses with a monthly turnover of NT$200,000 and above. As a result, the Finance Ministry collected NT$51 million that year, representing a 75% increase from the NT$29 million collected in 1950.

Principles of Taiwan's Invoice Lottery

The lottery drawing in Taiwan falls on the 25th of every odd-numbered month, i.e. January, March, May, July, September and November. Six sets of eight-digit numbers are drawn and announced in a 'live' televised ceremony presented by an emcee, where four models roll out the winning numbers from hand-turned lottery machines. Six prizes are announced during the ceremony. As of 2011, the special prize has been increased from NT$2 million to NT$10 million. First prizes of NT$200,000 are offered to customers with the receipts matching the 8-digit numbers drawn. Subsequent prizes valued at NT$40,000, NT$10,000, NT$4,000, NT$1,000 and NT$200 are available to receipt holders who match the final 7, 6, 5, 4 and 3 digits, respectively, on their invoices. In the picture 4.1 we can see examle of Taiwan's receipt.

In conjunction to the 60th anniversary of the invoice lottery, the Finance Ministry announced a 33% increase in the total prize value to NT$7 billion in 2011.

Pic. 4.1 Example of Taiwan's receipt



Source: Ministry of Finance, ROC (2014)

4.1.2 Health and Welfare Surcharge in Taiwan

On May 9, 2013, The ROC Cabinet approved proposed amendments to the Tobacco and Alcohol Tax Act and to the Tobacco Hazards Prevention Act, raising the tax and health surcharge on tobacco products.

The proposed revision of the Tobacco and Alcohol Tax Act would increase the cost of a pack of cigarettes by NT$5, raising the levy from the current NT$11.80 per pack to NT$16.80 per pack, and every 1,000 cigarettes or kilogram of other products, including cigars and cut tobacco, would be taxed NT$840, up from NT$590, a more than 42% increase. A pack of cigarettes currently costs about NT$85 in Taiwan.

Under the proposed amendment to the Tobacco Hazards Prevention Act, a health and welfare surcharge of NT$2,000 per 1,000 cigarettes or kilogram of tobacco or NT$40 a pack, double the current surcharge, would be imposed. Surcharge revenues are used, among other purposes, to help defray the cost of National Health Insurance fees for the disadvantaged, to subsidize cancer screenings, to provide treatment for developmentally disabled children and patients with rare diseases and to cover the annual costs of vaccinations for over a million children and oral health services for more than 1.5 million elementary school students.

4.1.3 Luxury Tax

The Taiwan's Ministry of Finance recently approved a special tax on selected goods and services, known as the luxury tax. The aim of introduction of the tax is to narrow the widening gap in wealth and curbing real estate speculation.

Luxury tax became effective from 1 June 2011. The tax is imposed on the following special commodities and services in the table 4.2.

Tab. 4.2 Special Commodity of Luxury Tax

Special Commodity and Service Tax	Tax Scope
House and Land	Holding period less than 2 years
Passenger vehicle with less than 9 seats	Price over NT$3 million
Yacht	Price over NT$3 million
Aircraft, helicopter and light vehicles	Price over NT$3 million
Furniture	Price over NT$500,000
Membership	Price over NT$500,000

Source: Ministry of Finance, ROC (2014), own elaboration

The taxpayers of luxury tax and the taxing points are:

- manufactures of the special commodity when products are leaving the factories,
- importers or consignees when products are imported,
- auctioneers or buyers when products are at auction,

- business service providers when a membership is sold.

The tax rate is 10 % of the total price of the special commodity or service. However, if the holding period of a house or land is less than 1 year, the tax rate is 15 %. The tax base is the total consideration including necessary charges other than marketing fees, general commodity tax, custome duty and VAT.

4.2 Comparison of Direct Tax

The purpose of this sub-chapter is to compare the tax system in Taiwan and the Czech Republic. First of all, we will focus on direct taxes and show the most significant differences between these two countries.

4.2.1 Income Tax

Individual income tax is levied on the **Taiwan** sourced income of both resident and non-resident individuals, unless exempt under the provisions of the Income Tax Act and other laws.

A non-resident alien residing in Taiwan for less than 90 days in a calendar year is subject to 18% withholding tax on salary remuneration received from a Taiwan-registered entity. Remuneration received from an entity registered outside of Taiwan is tax exempted.

A non-resident alien residing in Taiwan for more than 90 days but less than 183 days in a calendar year is subject to tax at a flat rate of 18% on Taiwan taxable salary income, regardless of where the remuneration is paid.

For 2013 individual income tax return filing, a resident alien[10] is subject to progressive tax rates.

Income Basic Tax Act

In addition to regular income tax calculations under the Income Tax Act, Taiwan also imposes Income Basic Tax (IBT), at a flat rate of 20 %, on individuals who are tax residents in Taiwan (including expatriates who stay in Taiwan for 183 days or more in a tax year). Effective from January 1, 2010, foreign sourced income is included in the calculation of IBT return if the following criteria are met:

- The individual is a tax resident of Taiwan,

[10] An individual who stays in Taiwan for 183 days or more within a calendar year is regarded as a resident.

- Basic income is equal to or more than NT$6 million,
- Foreign sourced income is equal to or more than NT$1 million.

Under the Income Basic Tax Act, a taxpayer must calculate the amount of IBT due on income subject to IBT after adding back certain items and compare the result with the regular income tax payable. If the IBT payable is greater than the regular income tax payable, the taxpayer has to calculate and pay IBT based on the formula[11].

If we look at personal income tax in the **Czech Republic,** the tax is payable by Czech resident individuals on income derived from worldwide sources. Individuals who are Czech non-resident for tax purposes are subject to tax only on income from Czech sources.

Personal income tax is paid by employees and self-employers. Taxable income of residents and nonresidents, other than income subject to withholding tax, is taxed at a flat rate of 15 %. The tax base for employees is calculated as the gross salary increased by the employer's health insurance and social security contributions. Self-employed persons can apply lump sum deductions instead of claiming actual expenses. In certain cases the amount of the deduction is limited.

Tab. 4.3 Comparison of Individual Income Tax

Taiwan		The Czech Republic	
Taxable Income	**Tax Rate (%)**	**Activity**	**Deductible Rate (%)**
0 - 520,000	5	Agriculture, forestry, fishing, farming and craft	80
520,001 - 1,170,000	12	Trade license income	60
1,170,001 - 2,350,000	20	Licensing intellectual property rights and other business income	40
2,350,001 - 4,400,000	30	Rental	30
4,400,001 - over	40	—	—

Source: Ministry of Finance, ROC (2014), own elaboration

[11] IBT = (Income Subject to IBT - NT$6 million) · 20 %.

As we can see, Taiwan´s individual income tax is subject to progressive tax rates. In addition to regular income tax calculations, Taiwan also imposes Income Basic Tax, at a flat rate of 20 %. Instead, in the Czech Republic there is a flat rate of 15 % and self-employed persons apply lump sum deductions. From 1 January 2013, in addition to standard 15% flat rate, a 7% solidarity tax increase is imposed on annual gross income.

4.2.2 Profit-seeking Income Tax

A major difference of the profit-seeking income tax implemented in **Taiwan** from the corporate tax system in other countries is the coverage of taxpayers[12]. Profit-seeking income taxes are imposed on companies, corporations, as well as business organizations in the form of sole proprietorship, and partnership where in most of cases, only companies or corporations, the so-called judical personal, are subject to this tax in other countries.

In 2010, the Taiwan´s government reduced the corporate income tax rate from 20 % to 17 %. Profit-seeking enterprises[13] whose total taxable income is NT$120,000 or less are exempted from the profit-seeking enterprise income tax.

According to a member of the legislature´s Finance Committe, this tax cut enhanced Taiwan´s competitiveness and attracted more foreign investors.

In the **Czech Republic** a corporate tax is levied on profits of legal entities, primarily limited liability companies (s.r.o.) and joint-stock companies (a.s.). Although partnerships are legal entities under the Civil Code, the profits of a general partnership (v.o.s.) are not subject to corporate tax: instead, each partner's share of the profits is taxed in his hands. In the case of a limited partnership (k.s.), the limited partner's share of the profits is subject to corporate tax in the hands of the k.s., while the general partner's share is taxed in the same way as in the case of v.o.s.

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[12] The scope of business income tax, taxpayers covered, is broader than other countries. In 1955 when this tax was introduced, there were few business organizations in the form of company or corporations. The secure the collection of tax, other forms of business entities were put into the tax net.

[13] Profit-seeking enterprise is defined by the Income Tax Act as an industrial, commercial, agricultural, forestry, mining or metallurgical enterprise operatér by public, private, or point public and private interests and having a business name or place and organized in the form of sole proprietorship, partnership, company or in any other form of organization.

In 2008, the Czech government reduced the corporate income tax rate from 24 % to 21 %. The current rate of corporate tax is 19 % in the Czech Republic.

4.3 Comparison of Indirect Tax

This sub-chapter deals with the comparison of selected indirect taxes in Taiwan and the Czech Republic.

4.3.1 VAT

In **Taiwan** there is a value-added tax, also called business tax, which is imposed on the sale of goods and services, as well as importation of goods into Taiwan. There are two systems of business tax. First one (GBRT) is used for financial institutions, special vendors of beverages and food. The second system (VAT) is used by the remaining taxpayers.

VAT is applicable to general industries, and the VAT rate is 5%. Under the VAT system, each seller collects output VAT from the buyer at the time of sale, deducts input VAT paid on purchases from output VAT, and remits the balance to the tax authority.

GBRT is applicable to specified industries such as financial institutions or small businesses. For banks, insurance companies, investment trust companies, securities and futures firms, short-term commercial paper enterprises, and pawnshops, the rate is 2 %. For re-insurance enterprises, the rate is 1 %.

Tab. 4.4 Comparison of Value-Added-Tax

Country	Standart Rate (%)	Reduced Rate (%)
Czech Republic	21	15
Taiwan	5	2 or 1

Source: Ministry of Finance, ROC (2014), own elaboration

In the **Czech Republic** there are two rates of VAT. The reduced 15% rate applies to selected services and products such as pharmaceutical products. The standard rate is 21 % and it applies to supplies of goods and most services. Most of the financial and pension services are exempt in the Czech Republic.

4.4 Comparison of Total Tax Revenue

This sub-chapter focuses on the comparison of Taiwan's tax revenue and the Czech tax revenue in 2011, 2012 and 2013.

4.4.1 Taiwan's Tax Revenue

If Taiwan's tax structure is broken down into direct and indirect taxes, as generally adopted, then it becomes apparent that over the period 2011 to 2013, the proportion accounted for by direct and indirect taxation increase.

Tab. 4.5 Taiwan's Tax Revenue (NT$ million)

Item of Tax	Year		
	2011	2012	2013
Business Tax	283 884	281 817	303 039
Profit-seeking Enterprise Income Tax	367 186	367 744	351 115
Individual Tax	343 004	393 065	392 174
Gift Tax	7 811	9 004	9 651
Land Tax	141 981	143 848	174 081
Vehicle License Tax	55 380	56 533	57 759
House Tax	59 466	61 796	63 013
Estate Tax	15 847	19 276	14 077

Source: Ministry of Finance, ROC (2014), own elaboration

From analysis of the various types of major taxes, it is apparent from the data in the table 4.5 that the proportion of tax revenue derived from individual income tax continued to rise, whilst the proportion accounted for by profit-seeking enterprise income tax declined during the period. If it comes to business tax, we can see that the proportion of tax revenue declined in 2012. The following year the business tax continued to rise. Other direct taxes such as a gift tax, house tax and land tax slightly increased. The proportion of tax revenue derived from vehicle licence tax continued to rise.

To summarize, we can not see any significant changes occurred in the taxation during the period 2011 to 2013. Although the tax burden has remained roughly the same, the proportion of total tax revenue accounted for by direct taxes had already come to exceed that accounted for by indirect taxes.

4.4.2 Tax Revenue in the Czech Republic

Table 4.6 shows the collection of selected taxes and impact on the tax revenue in 2011, 2012 and 2013. It shows that VAT is the biggest revenue to the state budget. The proportion of tax revenue derived from value-added tax continued to rise in 2012 and 2013. Corporate tax and individual tax are the second most important items of revenue. The proportion accounted for by corporate tax declined during the year 2013, whilst the individual tax continued to rise in 2012 and 2013. If we look at the real estate tax and the real estate transfer tax, we can see that these mentioned taxes slightly increased during the period. The proportion of the gift tax continued to rise in 2012, but dropped to CZK 108 million in 2013. Table 4.6 also shows that the inheritance tax is the lowest item in terms of the tax revenue.

Tab. 4.6 Czech Tax Revenue (CZK million)

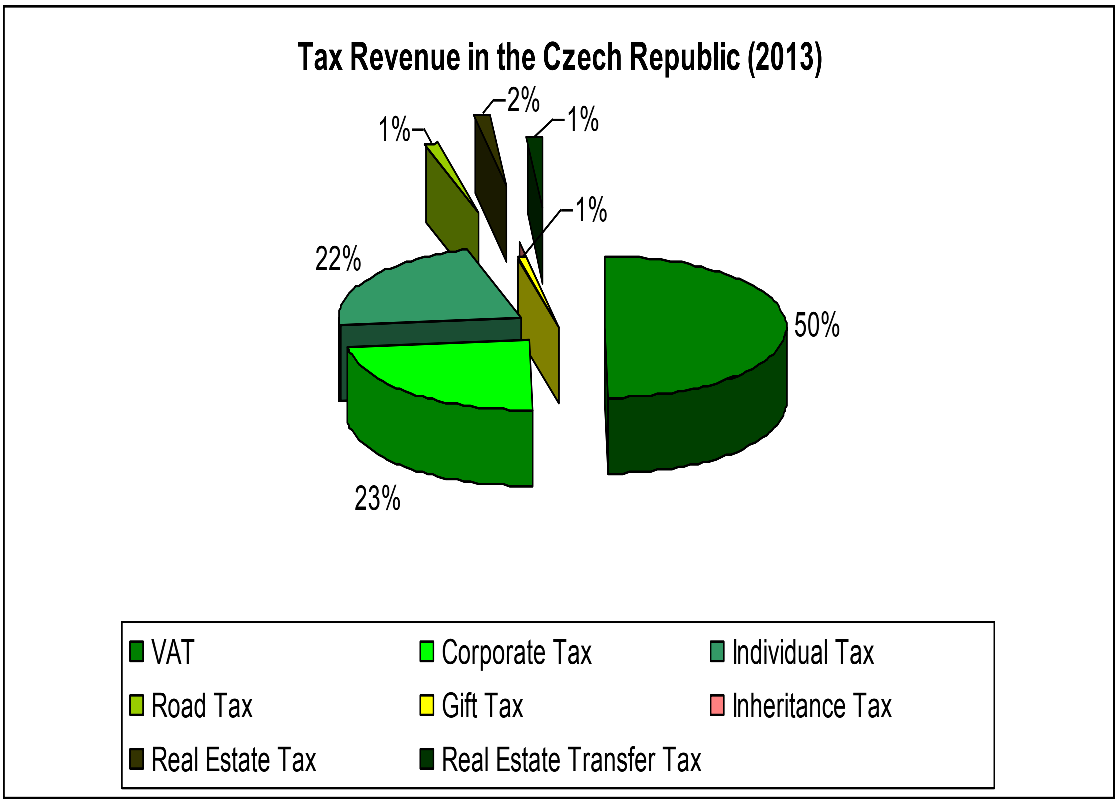
Item	Year		
	2011	2012	2013
VAT	275 394	278 231	308 462
Corporate Tax	129 160	141 242	133 540
Individual Tax	122 312	123 049	128 85
Road Tax	5 187	5 206	5 273
Gift Tax	4 279	3 368	108
Inheritance Tax	78	71	76
Real Estate Tax	8 568	9 541	9 847
Real Estate Transfer Tax	7 362	7 660	8 894

Source: Ministry of Finance (2014), own elaboration

4.4.3 Comparison of Selected Tax Revenue

Graph 4.7 shows the Czech tax revenue in 2013. It is obvious that the portion of value-added tax (50 %) is the largest item of the tax revenue. It is followed by corporate tax (23 %) and the individual income tax (22 %). We can find all calculations and percentages in the annex no. 1.

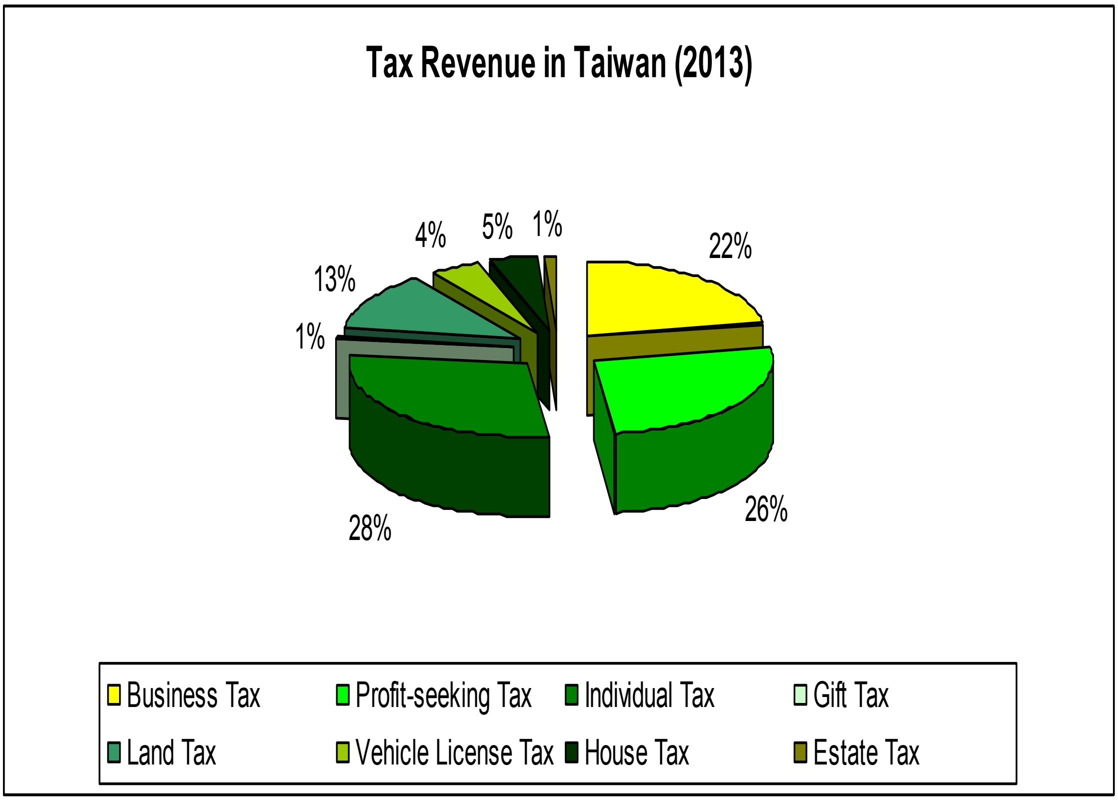
Gr. 4.7 Tax Revenue in the Czech Republic



Source: Ministry of Finance (2014), own elaboration

When it comes to the Taiwan's tax revenue, it is apparent from the graph 4.8 that the individual income tax has the largest share (28 %) on the tax revenue. The second one is the profit-seeking tax (26 %), following by business tax (22 %). The main reason why the business tax is in the third place is because of the low tax rate. Unlike in the Czech Republic, where the tax rate is several times higher. We can find all calculations and percentages we can find in the annex no. 2.

Gr. 4.8 Tax Revenue in Taiwan



Source: Ministry of Finance, ROC (2014), own elaboration

5 CONCLUSION

The main purpose of the thesis was to compare the tax system of the Czech Republic and Taiwan, taking into account the New Civil Czech Code.

The second chapter was focused on the New Civil Czech Code and the structure of direct and indirect taxes in the Czech Republic. The adoption of the New Civil Code required amendments to the tax law, but it should be noted that the tax law was amended also for other reasons. It can be considered that the most essential changes in Czech tax legislation are that the inheritance and gift tax are not regulated in separate acts or introducing into the Czech environment the concept of a trust fund.

Chapter three, apart from the explanation of the Taiwan's tax system and the tax structure, was focused on the tax reform in Taiwan.

Before the 1986 tax reform, the tax system and tax structure in Taiwan, as in most developing countries, were poor. Income taxes were constantly being evaded, and high tax rates could not generate much tax revenue. The introdution of the VAT was the first step in reforming the indirect tax system in Taiwan and was, therefore, very important.

The Taiwan's tax system can be classified into two categories. There are national taxes which include the individual income tax, profit-seeking income tax or value-added business tax. In the second category there are metropolitan, county and administratively equivalent city taxes. When we take into account the Taiwan's tax system, we can distinguish completely different structure of taxes in the Czech Republic. In Taiwan, there is a land tax, which is divided into rural land tax, land value tax and land value increment tax. It is worth mentioning that Taiwan's tax system contains for instance amusement tax or luxury tax.

The last chapter dealt with comparing the tax system in the Czech Republic and in Taiwan. The chapter also mentioned the peculiarities of the Taiwan's tax system such as uniform invoice tax lottery or health and welfare surcharge.

Taiwan introduced a uniform invoice lottery in 1951 in an attempt to force businesses to pay the required sales tax. It was a great success. Tax revenue rose by 75 % compared to the previous year. This lottery has continued on into the present day and the prizes range from NT$200 to NT$10,000,000 and draws are held every 2 months.

If it comes to health and welfare surcharge, the ROC approved raising the tax and health surcharge on tobacco products in 2013. The purpose of this surcharge is not only increasing the price of cigarettes and tobacco, but the main intention is the surcharge revenues are used to subsidize cancer screenings or to provide treatment for developmentally disabled children with rare diseases.

Furthermore, the fourth chapter was focused on comparison of direct and indirect taxes in the Czech Republic and in Taiwan. The biggest difference is the individual income tax is subject to progressive tax rates in Taiwan. Unlike the Czech Republic, there is a flat rate of 15 % and self-employed persons apply lump sum deductions. The tax base for employees is calculated as the gross salary increased by the employer's health insurance and social security contributions.

There are also significant differences in tax rates. There are two rates of VAT in the Czech Republic. The standard rate is 21 % and the reduced rate is 15 %. In Taiwan there is 5% tax rate, which is applicable to general industries and further 2% or 1% rates. These two rates are applicable to specified industries.

The last sub-chapter was focused on the comparison of selected tax revenues. Value-added tax has the largest share on the Czech tax revenue. Unlike the Taiwan's tax revenue, where the largest item of the tax revenue is the individual income tax, following by profit-seeking income tax. The main reason for this result is mentioned low tax rate of the business tax.

To sum up the Taiwan's tax system is unique in that it consists of some peculiarities such as the uniform invoice lottery or introducing the luxury tax. Apart from different tax rates, there are completely different taxes which are typical for island of Taiwan unlike in the Czech Republic, which has similar tax system to other European countries.

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LIST OF ABBREVIATIONS

ROC	Republic of China
NT$	New Taiwan Dollar
CZK	Czech Crown
MWh	Megawatt-hour
GJ	Gigajoule
LPG	Liquefied Petroleum Gas
CNG	Compressed Natural Gas
VAT	Value Added Tax
EU	European Union
MF	Ministry of Finance
R&D	Research and Development
LTR	Liter
GBRT	Gross Business Receipt Tax
IBT	Income Basic Tax
STT	Security Transaction Tax

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